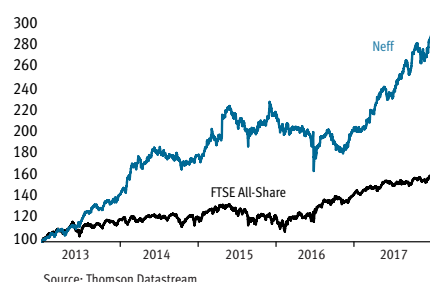




AlphaScreens: The market according to GARP

Growth at a reasonable price, or GARP, has proved a reliable strategy that has previously generated market-beating returns. We run our GARP screens across three indices: FTSE All-Share, All Small, and Aim

Neff 5-year cumulative total return



Algy Hall's view:

Buying shares that offer growth at a reasonable price (GARP) can generate strong returns. Prominent exponents of this style of investing include the likes of Jim Slater, Peter Lynch and, arguably, also John Neff. A key metric to assess whether companies offer the magic combination of value and growth is the price-to-earnings-growth (PEG) ratio. In its most basic form the ratio simply compares a share's valuation against its earnings with its earnings growth rate (historic or forecast). This approach is not overly exacting, but over many years it has proved a very effective way of identifying great investment opportunities when combined with other factors that suggest there are solid foundations to the value and growth measures used by the ratio.

- We have eight rules for screening the FTSE All-Share, yet out of this universe of more than 600 companies, only two pass all the criteria. These companies are packaging products specialist **Macfarlane (MACF)** and west end-focused commercial property company **Shaftesbury (SHB)**.
- **Page Group (PAGE)** no longer scores perfectly in our All-Share screen. This is not necessarily a sell signal for the shares, which have experienced strong momentum this year, but it is an opportune moment to reappraise the longer-term investment case.
- Our screens for the FTSE All-Small index of small-cap companies and our Aim-listed companies screen each have the same seven criteria. There is no change at top of our All-Small screen and the list of Aim companies scoring well is not much changed either.

Analyst: Algy Hall
algy.hall@ft.com

Alpha Production Editor: Sameera Hai Baig

Large-cap GARP criteria

Our large-cap GARP screen is run on all FTSE All-Share stocks and uses a PEG ratio based on the historic price/earnings (PE) ratio divided by a combination of the earnings growth rate and dividend yield. The earnings growth rate is calculated based on the average of the five-year historic growth rate and the average forecast growth over the next two years. The screening criteria are:

- A PEG ratio below the median average.
- A PE ratio that is higher than that of the lowest quarter of stocks screened (ie not suspiciously cheap) and below the top quarter (ie not dangerously expensive).
- A five-year historic EPS compound annual growth rate above 7.5 per cent but below 20 per cent (ie high, but sustainably so).
- A five-year historic revenue compound annual growth rate above 5 per cent (ie sales growth underpinning earnings growth).
- Year-on-year EPS growth in each of the past two half-year periods.
- Average forecast EPS growth of more than 7.5 per cent for the next two financial years.
- Positive free cash flow in each of the past three years.
- No downgrade to forecast EPS over the last three months.

Not many stocks pass such a stringent list of criteria. The ones that pass all the tests are listed at the top of the table at the top of page 4, followed by those failing one test, then those failing two tests and so on as detailed in the ‘Tests passed’ column. All stocks must pass the PEG test to feature in the table. While the primary ranking of the socks is based on the number of tests they pass, inside each of these groupings, stocks are ordered according to their attractiveness based on a combination of PEG and three-month price momentum.

Small-cap GARP criteria

Our small-cap GARP screen is run on all stocks in the FTSE All-Small and Alternative Investment Market (Aim) indices, with the results from the individual indices listed in separate tables. The screen uses a PEG based on the historic PE ratio and average forecast growth for the next two financial years. The screening criteria are:

- A PEG ratio in the bottom quarter of all stocks screened.
- EPS growth forecast for each of the next two financial years and an average growth rate over the period of more than 10 per cent and less than 50 per cent (ie high, but sustainably so).
- Either a return on equity of over 12.5 per cent or an operating margin of over 15 per cent (ie an indicator of a quality business that may have a sustainable advantage).
- Either three-month share price momentum better than the median average or earnings upgrades of 10 per cent or more over the past three months (ie recent reasons to feel positive).
- Operating cash conversion of 90 per cent or more.
- Net debt of less than 1.5 times cash profits.
- A market capitalisation of more than £10m (ie not severely illiquid).

Not many stocks pass such a stringent list of criteria. The ones that pass all the tests are listed at the top of the tables on page 5, followed by those failing one test, then those failing two tests and so on as detailed in the ‘Tests passed’ column. All stocks must pass the low PEG test to feature in the table. While the primary ranking of the socks is based on the number of tests they pass, inside each of these groupings, stocks are ordered according to their attractiveness based on a combination of PEG and three-month price momentum.

Large-cap GARP selection (passing at least 6 of 8 tests)

Name	TIDM	Market cap	Price	Forward NTM	PE	PEG	DY	FY EPS gr+1	FY EPS gr+2	3-month momentum	Net cash/ debt(-)	Cur	Tests passed (out of 8)	Test failed
Macfarlane Group	LSE:MACF	£163m	104p	15	1.3	2.0%	33.0%	2.3%	26.8%	-15m	GBP	8	na	
Shaftesbury	LSE:SHB	£2,838m	926p	50	0.6	1.8%	8.1%	11.3%	-5.8%	-767m	GBP	8	na	
JD Sports Fashion	LSE:JD.	£4,507m	463p	17	0.7	0.4%	5.4%	12.0%	18.5%	310m	GBP	7	/5yr EPS grth/	
Electrocomponents	LSE:ECM	£3,235m	732p	21	1.1	1.8%	22.8%	9.1%	17.9%	-66m	GBP	7	/5yr EPS grth/	
Ashtead Group	LSE:AHT	£11,246m	2,313p	14	0.3	1.4%	29.6%	8.4%	10.5%	-2,712m	GBP	7	/5yr EPS grth/	
Hays	LSE:HAS	£2,849m	196p	17	1.2	1.6%	17.2%	9.7%	8.7%	35m	GBP	7	/HY EPS grth/	
SThree	LSE:STHR	£437m	348p	13	1.0	4.0%	11.4%	14.4%	7.0%	-6m	GBP	7	/HY EPS grth/	
WPP	LSE:WPP	£14,573m	1,155p	10	0.6	5.2%	-2.5%	3.8%	5.7%	-4,483m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%	
Howden Joinery	LSE:HWDN	£3,227m	526p	16	1.2	2.1%	7.7%	7.8%	7.1%	241m	GBP	7	/HY EPS grth/	
MJ Gleeson	LSE:GLE	£410m	754p	14	0.5	3.2%	10.9%	9.1%	4.9%	27m	GBP	7	/5yr EPS grth/	
Big Yellow	LSE:BYG	£1,536m	975p	23	0.5	3.2%	8.9%	7.4%	4.7%	-345m	GBP	7	/5yr EPS grth/	
Morgan Sindall	LSE:MGNS	£624m	1,394p	10	0.9	3.2%	20.1%	0.7%	1.2%	193m	GBP	7	/FCF/	
National Express	LSE:NEX	£2,085m	408p	13	1.1	3.3%	11.4%	3.9%	-0.3%	-919m	GBP	7	/5yr Rev grth/	
Babcock International	LSE:BAB	£3,676m	729p	9	1.1	4.0%	2.5%	3.6%	-1.4%	-1,238m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%	
Paragon Banking Group	LSE:PAG	£1,301m	502p	10	0.7	3.1%	10.1%	18.2%	-4.4%	-6,072m	GBP	7	/FCF/	
Bovis Homes	LSE:BVS	£1,548m	1,152p	12	0.6	4.1%	40.3%	10.0%	-9.7%	145m	GBP	7	/HY EPS grth/	
Communis	LSE:CMS	£107m	51p	7	0.6	5.2%	7.2%	6.6%	-17.2%	-24m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%	
Savills	LSE:SVS	£1,174m	860p	12	1.2	3.5%	0.3%	4.2%	-12.8%	99m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%	
Vp	LSE:VP.	£455m	1,150p	12	1.2	2.3%	18.4%	5.4%	30.7%	-179m	GBP	6	/HY EPS grth/FCF/	
Games Workshop	LSE:GAW	£1,034m	3,195p	20	1.2	4.1%	94.0%	-24.5%	25.5%	29m	GBP	6	/mid PE/5yr EPS grth/	
Reckitt Benckiser	LSE:RB.	£45,970m	6,507p	20	1.1	2.5%	4.2%	7.3%	16.7%	-10,736m	GBP	6	/Av FY2 Fwd EPS growth > 7.5% 5yr Rev grth/	
PageGroup	LSE:PAGE	£1,881m	600p	20	1.1	4.2%	16.0%	13.0%	9.6%	96m	GBP	6	/mid PE/Fwd EPS/	
Robert Walters	LSE:RWA	£579m	766p	17	0.7	1.6%	16.8%	7.7%	6.7%	31m	GBP	6	/5yr EPS grth/FCF/	
Grafton Group	LSE:GFTU	£1,938m	815p	14	0.7	1.9%	8.0%	7.1%	6.5%	-63m	GBP	6	/5yr EPS grth/Fwd EPS/	
Vedanta Resources	LSE:VED	£2,164m	773p	9	0.3	6.4%	87.2%	42.7%	5.2%	-9,645m	USD	6	/5yr EPS grth/5yr Rev grth/	
4imprint	LSE:FOUR	£537m	1,920p	21	0.9	2.3%	16.0%	11.1%	6.2%	31m	USD	6	/mid PE/5yr EPS grth/	
Workspace	LSE:WKP	£2,020m	1,121p	27	0.7	2.4%	11.0%	12.2%	6.0%	-533m	GBP	6	/HY EPS grth/Fwd EPS/	
Cineworld	LSE:CINE	£3,717m	271p	14	1.1	7.9%	13.5%	17.5%	5.0%	-278m	GBP	6	/5yr EPS grth/HY EPS grth/	
Dignity	LSE:DTY	£498m	996p	13	-1.4	2.4%	-40.0%	-19.7%	1.3%	-516m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%	
S&U	LSE:SUS	£312m	2,600p	11	0.6	4.0%	19.5%	13.5%	1.8%	-105m	GBP	6	/FCF/Fwd EPS/	
Morgan Adv Materials	LSE:MGAM	£1,016m	356p	15	0.6	3.1%	10.7%	7.5%	1.6%	-181m	GBP	6	/5yr Rev grth/Fwd EPS/	
Tarsus	LSE:TRS	£337m	299p	18	0.7	3.4%	-38.7%	69.5%	-1.6%	-86m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%	
easyJet	LSE:EJZ	£6,392m	1,615p	13	1.0	2.5%	46.4%	9.2%	-2.2%	665m	GBP	6	/HY EPS grth/FCF/	
Micro Focus International	LSE:MCRO	£5,559m	1,274p	8	0.6	5.6%	4.9%	-0.9%	-4.0%	-4,337m	USD	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%	
Barratt Developments	LSE:BDEV	£5,386m	532p	8	0.3	8.1%	7.2%	4.5%	-6.9%	166m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%	
Assura	LSE:AGR	£1,335m	56p	20	1.2	4.7%	9.8%	5.9%	-3.8%	-462m	GBP	6	/HY EPS grth/Fwd EPS/	
Spectris	LSE:SXS	£3,075m	2,602p	16	1.1	2.2%	9.6%	8.8%	-4.7%	-51m	GBP	6	/HY EPS grth/5yr Rev grth/	
Persimmon	LSE:PSN	£7,835m	2,504p	9	0.3	9.4%	9.6%	2.2%	-9.3%	1,303m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%	
Bellway	LSE:BWY	£3,639m	2,962p	7	0.3	4.1%	13.9%	5.5%	-12.6%	-131m	GBP	6	/5yr EPS grth/FCF/	
Carnival	LSE:CCL	£31,282m	4,417p	13	1.0	3.5%	10.7%	13.2%	-7.6%	-8,826m	USD	6	/HY EPS grth/5yr Rev grth/	
Henry Boot	LSE:BOOT	£361m	272p	10	0.5	2.9%	-11.3%	1.0%	-12.4%	-29m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%	
Redrow	LSE:RDW	£1,939m	538p	7	0.2	4.1%	14.7%	8.1%	-16.9%	-35m	GBP	6	/5yr EPS grth/FCF/	
Ted Baker	LSE:TED	£1,025m	2,300p	16	1.1	2.6%	10.4%	9.9%	-13.6%	-112m	GBP	6	/FCF/Fwd EPS/	
Trifast plc	LSE:TRI	£273m	225p	16	1.2	1.7%	3.5%	3.9%	-16.6%	-7m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%	

Source: S&P CapitalIQ, as at 23 July 2018

Small-cap GARP selection (passing at least 5 of 7 tests)

Name	TIDM	Market cap	Price	Forward NTM PE	PEG	DY	FY EPS gr+1	FY EPS gr+2	3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 7)	Test failed
Haynes Publishing	LSE:HYNS	£35m	231p	17	0.79	3.2%	48.9%	10.2%	-2.9%	0m	GBP	7	na
Bonmarché Holdings	LSE:BON	£54m	110p	8	0.63	7.0%	12.1%	13.3%	13.0%	4m	GBP	7	na
Hansteen Holdings	LSE:HSTN	£447m	108p	21	0.69	5.6%	22.8%	7.7%	-16.1%	-225m	GBP	6	/Debt/
Morgan Sindall	LSE:MGNS	£624m	1,394p	10	1.18	3.2%	20.1%	0.7%	1.2%	193m	GBP	6	/Cash Conv/
Target Healthcare REIT	LSE:THRL	£385m	114p	20	1.06	5.7%	19.0%	7.7%	6.3%	-65m	GBP	6	/Cash Conv/
Capital Drilling	LSE:CAPD	£58m	43p	12	0.94	3.0%	19.1%	11.3%	6.4%	8m	USD	6	/Hi RoE or Marg/
GoCompare.com	LSE:GOCO	£521m	125p	15	1.12	1.1%	27.7%	8.9%	9.5%	-39m	GBP	6	/Hi RoE or Marg/
TT Electronics	LSE:TTG	£383m	247p	18	1.06	2.3%	24.2%	19.8%	11.8%	46m	GBP	6	/Hi RoE or Marg/
Gem Diamonds	LSE:GEMD	£153m	110p	6	0.72	-	300.0%	-48.6%	15.7%	1m	USD	6	/Fwd EPS grth/
Macfarlane	LSE:MACF	£163m	104p	15	1.10	2.0%	33.0%	2.3%	26.8%	-15m	GBP	6	/Cash Conv/
Arrow Global	LSE:ARW	£443m	252p	6	0.59	4.5%	18.5%	17.3%	-32.3%	-939m	GBP	5	/Hi RoE or Marg/Cash Conv/
Pendragon	LSE:PDG	£342m	24p	7	0.88	6.6%	2.3%	12.4%	-12.6%	-124m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Sirius Real Estate	LSE:SRE	£602m	60p	7	0.21	4.8%	133.1%	-25.1%	-2.8%	-288m	EUR	5	/Fwd EPS grth/Debt/
TClarke	LSE:CTO	£34m	82p	6	0.78	4.3%	8.7%	6.7%	-1.3%	12m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Carr's	LSE:CARR	£138m	152p	12	0.89	2.8%	45.5%	-0.4%	4.5%	-16m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Empiric Student Property	LSE:ESP	£568m	94p	27	0.39	5.9%	86.9%	21.7%	12.7%	-246m	GBP	5	/Fwd EPS grth/Debt/
Carclo	LSE:CAR	£81m	111p	10	0.65	-	16.3%	11.3%	19.4%	-31m	GBP	5	/Cash Conv/Debt/

Source: S&P CapitalIQ, as at 23 July 2018

Aim GARP selection (passing at least 5 of 7 tests)

Name	TIDM	Market cap	Price	Fwd NTM PE	PEG	DY	FY EPS gr+1	FY EPS gr+2	3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 7)	Test failed
Caledonia Mining Corp.	AIM:CMCL	£118m	640p	-	0.00	-	26.6%	10.6%	-0.4%	12m	USD	7	na
Sylvania Platinum	AIM:SLP	£49m	17p	8	0.49	-	2.6%	26.7%	4.3%	12m	USD	7	na
Scisys	AIM:SSY	£52m	178p	15	0.95	1.2%	20.9%	10.0%	14.3%	-6m	GBP	7	na
Warpaint London	AIM:W7L	£177m	230p	17	0.84	2.3%	45.8%	13.4%	18.4%	2m	GBP	7	na
Swallowfield	AIM:SWL	£46m	268p	12	0.65	1.9%	36.5%	14.1%	-14.5%	-1m	GBP	6	/Mom or Upgrade/
K3 Capital	AIM:K3C	£114m	270p	20	0.51	2.1%	62.2%	-14.2%	-11.5%	5m	GBP	6	/Fwd EPS grth/
SDX Energy	AIM:SDX	£215m	59p	-	0.00	-	85.2%	10.2%	-9.6%	29m	USD	6	/Fwd EPS grth/
Dart Group	AIM:DTG	£1,429m	962p	10	0.56	0.8%	51.6%	-3.8%	8.3%	202m	GBP	6	/Fwd EPS grth/
ProPhotonix	AIM:PPIX	£14m	11p	-	0.00	-	-29.3%	70.0%	20.6%	1m	USD	6	/Fwd EPS grth/
Base Resources	AIM:BSE	£316m	16p	-	0.00	-	128.1%	-23.0%	21.9%	-117m	AUD	6	/Fwd EPS grth/
M.T.I Wireless Edge	AIM:MWE	£13m	24p	9	0.48	6.4%	46.2%	8.2%	-21.2%	4m	USD	5	/Hi RoE or Marg/Mom or Upgrade/
Impellam	AIM:IPEL	£239m	475p	6	0.50	4.3%	23.2%	6.3%	-16.7%	-76m	GBP	5	/Hi RoE or Marg/Mom or Upgrade/
System1	AIM:SYS1	£33m	260p	15	0.50	2.9%	81.2%	15.8%	-15.6%	6m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Universe	AIM:UNG	£12m	5p	8	0.50	-	75.0%	4.5%	-13.0%	2m	GBP	5	/Hi RoE or Marg/Mom or Upgrade/
Petards	AIM:PEG	£14m	25p	12	0.37	-	43.9%	8.8%	-9.7%	1m	GBP	5	/Mom or Upgrade/Cash Conv/
Trans-Siberian Gold	AIM:TSG	£38m	35p	9	0.16	9.3%	109.6%	66.1%	-8.1%	-12m	USD	5	/Fwd EPS grth/Hi RoE or Marg/
Atalaya Mining	AIM:ATYM	£328m	239p	9	0.31	-	72.2%	23.9%	-2.4%	53m	EUR	5	/Fwd EPS grth/Hi RoE or Marg/
Pelatro	AIM:PTRO	£20m	83p	14	0.97	-	-9.0%	62.8%	-0.9%	3m	USD	5	/Fwd EPS grth/Cash Conv/
Goals Soccer Centres	AIM:GOAL	£52m	69p	12	0.28	-	24.7%	23.0%	-2.1%	-30m	GBP	5	/Mom or Upgrade/Debt/
Secure Income REIT	AIM:SIR	£1,228m	382p	25	0.73	3.3%	13.6%	3.7%	-0.9%	-878m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Summit Germany	AIM:SMTG	£540m	116p	12	0.28	3.5%	51.0%	-8.0%	-0.8%	-392m	EUR	5	/Fwd EPS grth/Debt/
EKF Diagnostics	AIM:EFK	£145m	32p	27	0.59	-	229.4%	-13.4%	0.3%	7m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Randall & Quilter Inv.	AIM:RQIH	£201m	160p	12	0.58	5.6%	27.6%	19.3%	6.6%	139m	GBP	5	/Hi RoE or Marg/Cash Conv/
Arbutnot Banking	AIM:ARBB	£240m	1,615p	22	0.92	2.0%	17.4%	53.5%	8.8%	734m	GBP	5	/Hi RoE or Marg/Cash Conv/
Sigma Capital	AIM:SGM	£124m	139p	11	0.34	-	200.5%	0.5%	11.6%	6m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Tricorn	AIM:TCN	£12m	36p	12	0.64	-	25.5%	28.1%	42.3%	-3m	GBP	5	/Hi RoE or Marg/Debt/
Diversified Gas & Oil	AIM:DGOC	£601m	119p	14	0.31	4.4%	57.0%	57.4%	37.2%	-57m	USD	5	/Fwd EPS grth/Debt/

Source: S&P CapitalIQ, as at 23 July 2018

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